

**Testimony
of the
Alliance of Western Milk Producers
before the
House Livestock & Horticulture Subcommittee
May 22, 2001
by
Jim Tillison, CEO**

Introduction

Mr. Chairman and Members of the Subcommittee, thank you for the opportunity to appear before you today to discuss the future of dairy policy.

The Alliance of Western Milk Producers is a trade association that represents California dairy cooperatives. Together, Alliance member cooperatives market approximately 50 percent of the milk produced in California both as raw milk and as processed dairy products.

Mr. Chairman, as you know, dairy is unique when compared to the other commodities that have some type of government support programs. It is a single crop industry requiring a large investment in facilities and equipment for which there are no short-term alternatives. That is, unlike many annual crops, the dairy man or woman cannot simply plant something else the next year. In addition, the crop produced is highly perishable and it must be processed almost immediately into a form in which it can be stored.

Because of its uniqueness, the Alliance of Western Milk Producers believes that a government safety net program for milk needs to be provided so men and women will continue to take the risk involved in getting into and staying in the milk production business.

Continue the Price Support Program

The Alliance of Western Milk Producers urges Congress to extend the Dairy Price Support Program. We support the continued operation of the support program as a part of the next farm bill as well. The current support price level of \$9.90 and the current purchase price levels for block and barrel cheese, bulk butter and nonfat dry milk powder should be maintained. Alliance member cooperatives support this position for a number of reasons.

First, there is no domestic dairy surplus. USDA's reports of commercial disappearance for the past several years make this very clear. According to USDA, America's dairy farmers marketed approximately 166 billion pounds of milk in 2000. Commercial sales totaled approximately 169 billion pounds milk equivalent on a milkfat basis. That same report shows that imports during that period totaled 4.4 billion pounds on a milk equivalent, milkfat basis.

Opponents of extending the support program at current purchase price levels point to government purchases of nonfat powder over the past couple of years and government nonfat powder inventory levels as proof that an adjustment is necessary. What they conveniently ignore

is the dramatic growth in imports of milk protein concentrates (MPC), an undefined milk powder that is being imported into our country in circumvention of existing trade agreements and supplanting U.S. produced nonfat dry milk.

The chart below shows the growth of MPC imports over the last 10 years compared to Commodity Credit Corporation purchases of nonfat dry milk powder. This chart points out several interesting things.

First, imports of milk protein concentrates increased dramatically after implementation of the Uruguay Round of the GATT in 1995. There are several reasons for this, including the replacement of Section 22 quotas with tariffs. Limits on the level of and quantity of subsidies for

nonfat dry milk powder combined with tariffs resulted in America's trading partners expanding imports of MPC.

Second, the increase in CCC purchases of nonfat powder reflects the increase in MPC imports. Anyone who says there is not a direct relationship between increased CCC purchases of nonfat powder and increased MPC imports is ignoring the facts. The fact is that MPC is nothing more than slightly modified nonfat dry milk powder. As such, it is circumventing tariffs and quotas resulting in the CCC buying nonfat dry milk powder.

We understand that, there has been talk of establishing some type of mechanism to adjust CCC commodity purchase prices. Alliance members would oppose such an approach. They are concerned that America's dairy farmers are balancing the world market for dairy products now. Lowering the domestic nonfat powder price will do nothing to address the underlying cause of higher levels of CCC purchases – imported milk protein concentrate. According to USDA data, over half of the MPC coming into the country is heavily subsidized and subject to virtually no tariffs. Because of this, any mechanism that does not take into account the levels of imports, will only take money out of producers pockets and will not reduce the quantity of dairy commodities purchased by the CCC.

The Alliance supports legislation, H.R. 1786, that was recently introduced by Reps. Obey and Gutknecht to address the unchecked imports of MPC. The Alliance urges all Members of this Committee and the Members of the California delegation to support HR 1786. This bill addresses the MPC issue in a fair and reasonable way and will do more to balance domestic supply and demand than any change in the commodity purchase price mechanism.

The dairy price support program has served milk producers, milk processors and consumers very well. The Alliance has looked at alternatives including non-recourse loans and deficiency payments. In the final analysis, the Alliance has found these other approaches to be wanting. The price support program provides all parties involved with the best protection at the lowest cost and it is equitable.

Other priorities

International trade agreements have a significant impact on the dairy industry. The Alliance firmly believes that this Subcommittee and the full House Agriculture Committee should play more of a role in trade negotiations. Our members believe the House and Senate Agriculture Committees should be on equal footing with the Senate Finance Committee and the House Ways and Means Committee when it comes to trade agreement oversight. The Alliance members also believe that access to U.S. markets by imports should be tied to the level of trade distorting activities of the exporting country. Equal access into those countries markets should be given weight as well.

As you know, California has minimum fluid milk standards that are considerably higher than the minimum federal fluid milk standards. While virtually all producers would like to see those standards adopted nationally, Alliance members believe that the solids-not-fat content of fluid milk should at least reflect the average level found in milk as it comes from the cow. When butterfat is removed to produce low fat and nonfat milks, the level of solids-not-fat should increase. The Food and Drug Administration should be encouraged to explore using federal milk marketing order audits to ensure fluid milk contains at least the amount of solids-not-fat as it comes from the cow.

Alliance members would also like to see the federal government support the development of projects and activities with the potential to expand the market opportunities for milk and its components.

Environmental issues have become more and more important to the dairy industry. The challenge milk producers face is the uncertainty of how to comply with what seem to be an ever changing collage of requirements. This is detrimental to the well-being and growth of the dairy industry. The Alliance urges Congress to (1) ensure that environmental regulations are science-

based and not detrimental to maintaining a viable dairy industry; and, (2) provide assistance to milk producers in order to comply with environmental regulations and requirements.

Last, but certainly not least, the Alliance supports maintaining the federal milk marketing order system. While California producers choose to maintain a separate but comparable system, that system cannot continue to exist and function effectively if the federal system is eliminated. Producers, processors and consumers are well served by this type of system.

Conclusion

The dairy price support program of today is truly a safety net. It does not enhance producer milk prices, but it does assure producers that there is a market of last resort for their product. As has been demonstrated, the need for a market of last resort is not the producers' doing. Rather, it is the result of imports circumventing trade agreements and, thus, undercutting domestic product in the marketplace. The support price and product purchase price levels should be maintained at current levels.

Thank you for this opportunity, Mr. Chairman, and I look forward to working with you in the coming months to develop a dairy policy that will ensure the long-term viability of our nation's dairy farmers. I stand ready to answer any questions you or the Members of the Subcommittee may have.

Respectfully submitted,

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